



T 1300 722 100
F (02) 9026 0499
E info@yourpathway.com.au

www.yourpathway.com.au

GPO Box 2711
Sydney NSW 2001

Sydney - Head Office
Level 10, 60 Carrington St
Sydney NSW 2000

Melbourne
Level 8, 52 Collins St
Melbourne, 3000

Brisbane
Level 6, 126 Margaret St
Brisbane
Queensland 4101

9 October 2015

Corporations and Schemes Unit (CSU)
Financial System and Services Division
The Treasury
100 Market Street
Sydney NSW 2000

Dear Treasury,

Pathway Submission – Proposed Industry Funding Model for the Australian Securities and Investment Commission

Pathway Licensee Services (Pathway) is a specialist provider of services to independent financial advice Australian Financial Service Licensees (AFSL's). Pathway provides a range of services to smaller and mid-tier licensees where it is more economical and effective for the licensee to leverage outsourced services rather than to build in-house capability. These services include advice and support in obtaining an AFSL and ongoing compliance services that are required to maintain an AFSL.

In this submission we are seeking to specifically address the issues in the proposed funding model as they are related to financial advice licensees. Whilst we support the principle of a user pays framework, we believe that there are some important considerations to take into account and some issues with respect to equity in what has been proposed.

We would like to start by providing some background on the state of the independent financial advice licensee marketplace. Over a number of years there has been a growing trend of consolidation in financial advice licensees, with the major institutions continuing to acquire additional financial advice licensees and to recruit self-employed advisers into their licensees. This trend is partially offset by growth amongst some successful independent licensees and the ongoing establishment of new licensees. Licensees who are owned by the large institutions tend to place a greater level of control on what their advisers can do, including restrictions on which products they can recommend, with a tendency to favour in-house products. Those financial advisers who seek a greater level of independence in the services that they provide to their clients, often seek to establish their own licence.

It is this preservation of the independent licensee space that is so important for ensuring that Australian consumers have access to choice when it comes to deciding who to go to for financial advice. The position of independent financial advice licensees has been placed under increased financial pressure as a result of the changes that have flowed from the Future of Financial Advice Reforms. This pressure is expected to remain as independent licensees continue to struggle to attract new advisers and to retain a sustainable and viable business model.

We are also conscious that the ongoing issue, flowing from the problem with the Grandfathering provisions in the Future of Financial Advice legislation led to a complete pause on financial advisers moving licensee and establishing their own license from July 2013 to December 2014. The consequences of this freezing of the market has meant that there is a backlog of financial advisers who have reached a point where they are now seeking to establish their own licence in order to have the ability to operate independent of institutional influence. It would be a poor outcome for the Australian market and Australian consumers if this movement towards independence was impacted or reduced as a result of an additional and excessive cost to obtain an AFSL.

Our feedback on this proposal is on three levels:

- The amount being charged for the establishment of a financial advice licensee seems excessive.
- There seems some level of inconsistency in the ongoing charges in financial services.
- The timing of the introduction of these fees is too aggressive and the delay in the application of the levies for non-financial services entities seems to be inequitable.

Cost of Establishing an AFSL

In looking at the proposed \$11,000 cost of establishing a financial advice AFSL, we make the following points:

- The cost is the same for all new AFSLs, no matter whether this is a single person financial advice business or a large product provider.
- \$11,000 for the creation of a financial advice licence simply seems to be an excessive charge. If this reflects the costs then we recommend that the processes be examined to see how this cost could be reduced.

We recommend that the cost for establishing a financial advice licensee be reviewed.
--

Ongoing Costs of a Financial Advice Licensee

The ongoing costs for a financial advice licensee of \$1,350 per licensee plus \$470 per financial adviser, is a significant cost, particularly for a business that might already be under a level of financial pressure. For a business of around 200 advisers, this would represent an additional cost of nearly \$100,000 per year, which will place additional financial stress on these businesses. We seek to compare this to the cost that would be charged to a business that has multiple tier 2 product advisers (\$750), a business providing general advice (\$520), a wholesale advice provider (\$100) or even the largest life insurer who is only charged \$31,000. Whilst it is easier to quantify the number of financial advisers in a licensee as a result of the Financial Adviser Register, this should not be the sole reason for the inequity in the charging between those people who provide personal advice on tier 1 products and those who provide advice on tier 2 products or simply general advice or advice to wholesale clients. It is our view that some of these levy rates need to be reviewed in order to deliver a more equitable model. It is also noted that these cost will need to be passed on to consumers at a time when consumer confidence in financial advice is undermining the utilisation of financial advice and thus reducing the likelihood of Australian consumers accessing the great benefits that financial advice provides.

We recommend that the ongoing levies be reviewed to better ensure equity
--

Transition Arrangements

The fee-for-service charging, such as the cost to establish a licence is scheduled to come into effect from 1 July 2016 with the levies for financial services entities to commence at a 50% rate from 1 July 2016 and then move to a 100% rate from 1 July 2017. We contend that this timeframe is too quick and that those people who are currently working through the process of obtaining an AFSL should have further time to complete the process at the current cost. It also seems apparent that the timeframe for this to work through the full consultation and legislative process will mean that it is not resolved until just prior to the proposed commencement date. The industry should have a longer period of time to prepare for such changes, particularly where this might necessitate an increase in what financial advisers charge their clients.

We recommend that the fee for service pricing be introduced from 1 July 2017, and as stated above at a more appropriate level for financial advice licence applications.

We also believe that it is inequitable to delay the application of the levies for non-financial services entities by a further 12 months. There is no justification for applying the levies to financial services businesses 12 months in advance of other industries.

We recommend that the phase in of the levies apply the same for all industries at the rate of 50% from 1 July 2017 and 100% from 1 July 2018.

Conclusion

We thank you for the opportunity to make a submission on this important issue. We recognise the rationale for moving to a user pays model, however as set out above, we believe that this model can be improved in order to be more equitable.

Please contact us on 1300 722 100 if you have any questions with respect to this submission.

Phil Anderson
Head of Governance and Advice